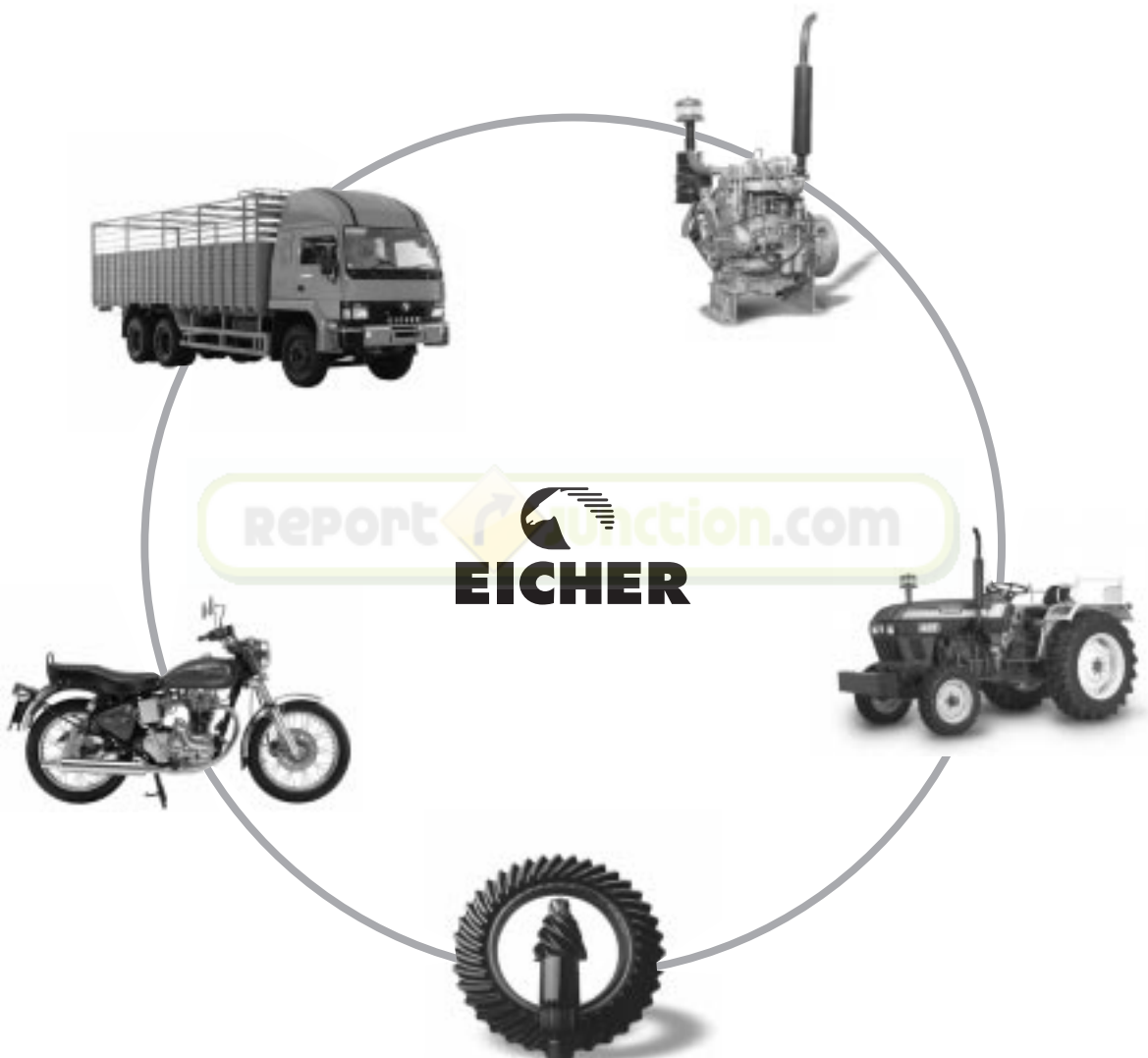


EICHER MOTORS LIMITED



ANNUAL REPORT 2003-2004

Board of Directors

S Sandilya, Group Chairman
P N Vijay
Priya Brat
M J Subbaiah

Company Secretary

Inder Mohan Singh

Auditors

A F Ferguson Associates, New Delhi

Bankers

Central Bank of India
Centurion Bank
Corporation Bank
HDFC Bank Limited
Indian Overseas Bank
ICICI Bank Limited
State Bank of India
State Bank of Patiala
State Bank of Indore

Registered Office

Eicher House
12, Commercial Complex,
Greater Kailash II (Masjid Moth)
New Delhi - 110 048
Phone No. : (011) 29225521
Website : www.eicherworld.com

Share Transfer Agent

M/s. MCS Limited
Sri Venkatesh Bhawan
W-40, Okhla Industrial Area,
Phase - II, New Delhi 110020.
Phone No. : (011) 26384909
email: mcsltd@eth.net

Factories**Commercial Vehicles**

102, Industrial Area No.I, Pithampur, Dist. Dhar
Madhya Pradesh – 454775

Tractor Business Unit

Eicher Tractors

- 59, NIT Faridabad 121001 (Haryana)
- Plot No.I, Sector D, New Industrial Area,
Mandideep-462 046, Dist Raisen , Bhopal (M P)
- Sector II, Parwanoo 173220 Distt. Solan (H.P.)
- Itarana Road, Alwar 301001 (Rajasthan)

Two Wheeler Business Unit

Royal Enfield

- Thiruvottiyur, Chennai 600019 (Tamil Nadu)
- SP-01, RIICO Industrial Area, Kukas (Amer), Jaipur

Gear Business Unit

Eicher Demm

- S V Road, Thane 400607 (Maharashtra)

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NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE 22nd ANNUAL GENERAL MEETING OF THE MEMBERS OF EICHER MOTORS LIMITED WILL BE HELD ON WEDNESDAY AT 11.30 A.M. ON 29TH SEPTEMBER, 2004 AT DR. B.R. AMBEDKAR AUDITORIUM, ANDHRA BHAWAN, 1, ASHOKA ROAD, NEW DELHI-110 001 TO TRANSACT THE FOLLOWING BUSINESS:

ORDINARY BUSINESS

1. To receive, consider and adopt the Profit & Loss Account for the year ended 31st March, 2004 and the Balance Sheet as at end of the said year together with Auditors' & Directors' Report thereon.
2. To declare dividend on equity shares.
3. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company, and to fix their remuneration.

The Company has received a notice from M/s A.F. Ferguson Associates, Chartered Accountants, the retiring auditors, that their reappointment if made, will be in accordance with the limits specified in Sub Section (1B) of Section 224 of the Companies Act, 1956.

4. To appoint a Director in place of Mr S Sandilya who retires by rotation and being eligible offers himself for reappointment.
5. To appoint a Director in place of Mr M J Subbaiah who retires by rotation and being eligible offers himself for reappointment.

SPECIAL BUSINESS

6. To consider and if thought fit to pass the following resolution with or without modification as an ordinary resolution:
"RESOLVED that subject to the provisions of section 309, 310, 311, 198, 268, 269 read with schedule XIII of the Companies Act, 1956 and subject to such other approvals as may be applicable, approval be and is hereby granted for variation in the terms and conditions relating to remuneration for Mr. S Sandilya, Chairman & Whole-Time Director as appearing in the explanatory statement enclosed herewith.
7. To consider and if thought fit to pass the following resolution with or without modification as an ordinary resolution:
"RESOLVED that the consent of the Company be and is hereby accorded in terms of Section 293(1)(a) and all other applicable provisions, if any, of the Companies Act, 1956, and subject to such consents and approvals as may be necessary, the Board of Directors of the Company be and is hereby authorised to mortgage, charge all or any of the present and future movable and immovable properties of the Company wheresoever situated, present and future, together with the power to take over the whole or substantially the whole of the undertaking of the Company or any of its undertaking in certain events:

As and by way of First Charge:

1. Term Loan of Rs.40 crores by UTI.
2. Term Loan of Rs.5 crores by IOB.
3. Term Loan of Rs.3.33 crores by IIDBI.
4. Term Loan of Rs.28 crores by IIBI.
5. Term Loan of Rs.25 crores by ICICI.
6. Term Loan of Rs.0.12 crores by IFCI.

As and by way of Second Charge to:

1. Working capital facilities of Rs. 9.90 crores by IOB;

2. Working capital facilities of Rs.13.51 crores by SBOP;
3. Working capital facilities of Rs.0.06 crores by SBI;
4. Working capital facilities of Rs.2.87 crores by ICICI;
5. Working capital facilities of Rs.0.53 crores by CBI;
6. Working capital facilities of Rs.2.62 crores by SBI;
7. Working capital facilities of Rs.6.67 crores by HDFC;

RESOLVED FURTHER that the Board of Directors of the Company be and is hereby authorised to finalise the terms and conditions and documents for creating the aforesaid mortgage and/or charge and for reserving the aforesaid rights and to do all such acts and things as may be necessary for giving effect to the above resolution".

By order of the Board

Place : New Delhi
Date : August 17, 2004

Inder Mohan Singh
Company Secretary

NOTES:

1. A member entitled to attend and vote is entitled to appoint a proxy, to attend and vote instead of himself and the proxy need not be a member of the Company.
2. An explanatory statement pursuant to Section 173(2) of the Companies Act, 1956 is enclosed.
3. The Register of Members and Share Transfer Books of the Company will remain closed from 21st September, 2004 to 29th September, 2004 (both days inclusive) in terms of Section 154 of the Companies Act, 1956.
4. Please intimate change in your address if any to MCS Limited, Share Transfer Agents, W-40, Okhla Industrial Area, Phase-II, New Delhi - 110 020.
5. The Dividend as recommended by the Board of Directors and if approved by the shareholders at the Annual General Meeting to be held on 29th September, 2004, shall be paid to those members whose names appear on the Register of Members as on 29th September, 2004.
6. Members are requested to quote folio numbers in all correspondence with the Company.
7. In case you intend to raise any queries in the forthcoming Annual General Meeting, you are requested to please forward the same at least 10 days before the date of the Meeting to Mr Inder Mohan Singh, Company Secretary at the following address so that the same may be attended to appropriately to your entire satisfaction.

By order of the Board

Inder Mohan Singh
Company Secretary
Eicher Motors Limited
Eicher House, 12, Commercial Complex
Greater Kailash-II (Masjid Moth)
New Delhi - 110 048
Tel No. : 29225521
E-mail : imsingh@eicher.co.in

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956.

Item No.6

Mr S Sandilya - Chairman & Whole-Time Director

"RESOLVED that subject to the provisions of section 309, 310, 311, 198, 268, 269 read with schedule XIII of the Companies Act, 1956 and subject to the approval of the shareholders, approval be and is hereby granted for variation in the terms and conditions relating to remuneration for Mr.S Sandilya, Chairman & Whole-Time Director w.e.f. 1.10.2003 as given below:

I. Salary and allowances:

- a) Rs.1,50,000/- (Rupees One Lac Fifty Thousand only) per month with effect from 1st October, 2003 in the range of Rs.1,10,000/- to 2,00,000/- per month.
- b) Monthly allowance of Rs.1,00,000/- (Rupees One lac only) per month.
- c) Annual payment of Rs.20,00,000/- (Rupees Twenty Lacs only).

II. Perquisites:

- a) Furnished accommodation;
- b) Facility of Car with driver;
- c) Telephone at residence;
- d) Medical Reimbursement : Expenses incurred for self and family in accordance with the rules of the Company;
- e) Contribution to Provident and Superannuation funds : Company's contribution to Provident and Superannuation funds will be as per the rules of the Company;
- f) Gratuity : Not exceeding half month's salary for each completed year of service;
- g) Other perquisites : subject to the overall ceiling on remuneration, the Chairman & Whole-Time Director may be given other allowances, benefits and perquisites as the Board of Directors may, from time to time, decide.

Explanation

Perquisites shall be evaluated as per Income tax Rules, 1962, wherever applicable and in the absence of any such rules, perquisites shall be valued at actual cost.

III. Commission:

As the Board of Directors of the Company and/or a Committee of the Board, may at their sole discretion approve/ decide from time to time payment of commission provided that the total commission shall not exceed twice the annual basic salary computed in the manner laid down in Section 309(5) of the Companies Act, 1956 as amended from time to time.

- IV. The aggregate of salary, allowances and perquisites including commission in any financial year shall not exceed the limit prescribed from time to time under sections 198, 309, 310 and other applicable provisions of the Companies Act, 1956 read with Schedule XIII to the Companies Act, 1956 as may for the time being be in force.
- V. In the event of absence or inadequacy of profits in any financial year, the aggregate of salary, allowances, perquisites shall not exceed the applicable (maximum) ceiling prescribed under Section II of Part II of Schedule XIII of the Companies Act, 1956 or such other limits as may be prescribed by the Government from time to time.
- VI. The Company shall not pay any commission to Mr.S.Sandilya in the event of absence/inadequacy of profits.

All other terms and conditions of the appointment shall remain unchanged."

Except Mr.S Sandilya, no other Director is concerned or interested.

Item No. 7

In terms of the 'Scheme of Arrangement' all the secured loans pertaining to Automobile Undertaking of Eicher Limited have been transferred to the Company. These loans are to be secured with movable and immovable assets pertaining to the 'Automobile Undertaking' transferred from Eicher Limited to the Company. Hence, it would be necessary to create mortgage / charge on the present and future assets of the Company in favour of the Institutions and Banks by way of First charge and Second charge from time to time.

In order to enable Company create necessary mortgages on its current as well as future assets, approval of the member under section 293 (1)(a) is sought.

None of the Director is concern or interested in this resolution.



DIRECTORS' REPORT TO THE SHAREHOLDERS

The Board of Directors have pleasure in presenting the Twenty Second Annual Report along with the audited accounts for the year ended March 31, 2004.

RESTRUCTURING OF BUSINESS / DEMERGER SCHEME

The year witnessed the demerger of Tractors, Two-wheelers, Engines and Gears businesses of Eicher Limited (Automobile Undertaking) into the Company with effect from 1st April, 2003 pursuant to the Orders of the Hon'ble High Courts of Judicature at Madhya Pradesh, Indore Bench and Delhi sanctioning the Composite scheme of arrangement (the Scheme) under Sections 391 to 394 of the Companies Act, 1956. The aforesaid orders have also been filed with the relevant Registrars of Companies at Gwalior, Madhya Pradesh and Delhi. Consequently current year figures incorporate the operations of Automobile Undertaking of Eicher Limited also.

As part of the Scheme, following changes inter-alia have been effected :

- All the assets and liabilities of the Automobile Undertaking as on the appointed date i.e. 1st April, 2003, stood transferred / vested in the Company.
- With the Scheme coming into force, the registered office of the Company has been shifted to Eicher House, 12, Commercial Complex, Greater Kailash- II (Masjid Moth), New Delhi- 110048.
- In accordance with the Scheme, the Company will be allotting 80,94,750 equity shares to the shareholders of Eicher Limited in the ratio of 2:5. The total paid up share capital of the Company after amalgamation would be Rs.28,09,39,500 consisting of 2,80,93,950 equity shares of Rs.10 each fully paid up.
- All employees of the Automobile Undertaking, who are in service on the Effective Date shall be deemed to have become the employees of the Company with effect from the Appointed Date i.e. April 1, 2003.

FINANCIAL RESULTS

Your Company reported a gross sales of Rs. 1565 crores for the year 2003-04 while profit after tax was Rs. 34 crores. The profit before taxes for the year was Rs. 58 crores.

The financial results are summarized below: -

	(Rs. in crores)
	2003-04
Gross sales	1565
Less : Excise duty	200
Net sales	1365
Other income	11
Total income	1376
Operating profit before depreciation & interest	124
Interest	24
Depreciation	42
Profit before tax	58
Provision for tax (including deferred tax)	24
Net profit after tax	34
Earnings per share	
- Basic	11.9
- Before deferred taxation provision	18.9

DIVIDEND

The Directors are pleased to declare and recommend payment of dividend of 35% on the enhanced equity share capital of Rs.28.09 crores for the year.

OUR BUSINESSES

COMMERCIAL VEHICLES

The domestic Commercial Vehicle (CV) industry grew by 37% during the financial year 2003-04. Most of the segments of CV industry grew, though at different rates, spurred by Government investments in road infrastructure, lowest ever interest rates and good business environment.

The continuance of reforms process, investment in infrastructure, renewed thrust on rural development and a possible good monsoon should help CV industry to grow in the current year as well.

Your Company sold 15885 vehicles as compared to 12717 vehicles in the immediately preceding year - a growth of 25%. The Company's entry into the HCV segment has gained momentum and during the year the Company sold 1676 HCVs as compared to 281 HCVs during the previous financial year in which they were launched.

The Jumbo 20.16 (16 ton) model was also introduced in Nepal market where it has registered impressive volumes within a short period of its introduction.

The Company has also developed a number of variants and is in the process of upgrading some of the current LCV

products to improve competitiveness in the market. This, backed by development of new dealers in identified areas, would further help in increasing the Company's sales in the short term.

The turnover of CVs grew by 30% to Rs.909 crores in the year from Rs.698 crores in the previous year.

TRACTORS / ENGINES

The domestic Tractors industry recorded sales of 1,91,000 tractors during the financial year 2003-04 registering a growth of 11% over the previous year. Your company's sales grew by 6% to 16,775 tractors during the year as compared to 15,814 tractors in the previous year. The turnover of tractors business grew by 10% to Rs.425 crores from Rs.385 crores.

The strict credit control measures adopted by the company helped in reducing credit outstanding in the market at the cost of additional sales to dealers. As a result, there was a marginal drop in the market share of your company from 9.2% to 8.8%. The tractor range has been augmented with the successful piloting of a 50HP tractor. The water-cooled tractors introduced in 2002-03 have been well accepted in the market and today contribute to 14% of our tractor volumes.

Your company has successfully completed the first phase of rationalization of manufacturing activities between the plants for better synergies. Production and sourcing at the Mandideep plant were ramped up to ensure realisation of the benefits. Costs continued to be under strict focus. Reductions were achieved in material costs through localization, e-procurement and value engineering and through increased focus on working capital and overheads.

Your company has initiated steps to provide distinctive value propositions through its products and services and to improve competitive product positioning. The focus on private financing of tractors continued. Tie-ups for retail financing of tractors and equipment were also signed with 17 public sector banks. This has resulted in improved value offering to the customers. The relaxation of eligibility norms by the banks assisted in growth of the industry. Expansion of channel with focus on coverage at micro level, improvements in sales processes etc. have helped the performance in the year.

During the year non-tractor Engines / Gen sets sales registered a growth of 6.1%. Your Company sold 6576 Engines / Gen sets during the year as against 6161 nos during the immediately preceding financial year. Your company has been successful in developing products for ready to use genset segment. Initial break-through orders

have been received from a few corporate clients in the Telecom and Petroleum sectors.

TWO WHEELERS

The two-wheeler industry registered a growth of over 12% during the year with motorcycle segment growing by over 15%. Your company which operates in the power segment with engine capacity of 350 cc and above, recorded its highest ever sales of 28,361 motorcycles- marginally higher than 28,029 nos in the previous year. The turnover at Rs.175 crores as compared to Rs.169 crores in the preceding year reflects a growth of 3.5%.

Your company introduced the "Bullet Electra 2004" during the last quarter of the financial year 2003-04. Apart from improved performance and aesthetics, this bike is the first bike in India fitted with gas filled shock absorbers. "Bullet Machismo" with conventional left shift gears was also introduced to cater to the younger age group. Your Company has developed and showcased the new "International Bullet Electra" at the Birmingham motorcycle show. This bike has been well accepted and will help boost up volumes in the current financial year.

New product development and Quality enhancement continued to be a major focus area during the year. A new Quality Policy has been formulated and actions commenced to align the entire organisation to this policy. During the year your Company received re-certification for both Environmental Management Systems Standards ISO 14001:1996 and Quality Management Systems Standards ISO 9001:2000.

During the year, your Company launched a major national advertisement campaign through television and print media to increase awareness of the brand and build a platform for higher volumes in the future. To improve presence in the market place, your Company opened its own showroom in Mumbai and the response has been very encouraging. A major initiative has also been launched to improve the infrastructure and customer experience at our leading Dealerships.

Cost reduction drive was reinforced through the launching of the Full Value Sourcing (FVS) program with the help of an external consultant. The results are encouraging and have helped in a big way in reducing the impact of high inflation due to increase in Steel and Aluminium prices in the last few months.

Subsequent to rationalisation and cost reduction exercise undertaken in the year 2001, operations at Jaipur plant were suspended and were moved to the plant at Chennai. In case additional capacity is required in the future to meet

increased volume requirements the operations at Jaipur plant can be resumed. The value of assets at Jaipur was assessed on the basis of value in use viz., future cash flows and estimated realisable value, which is higher than the book value of the assets.

GEARS

As mentioned earlier, the year under review witnessed a revival of the Indian economy with all sectors -industry, agriculture and services posting robust growth. Domestic commercial vehicle industry, tractor industry and two wheeler segment posted growth of 37%, 11% and 12% respectively over the previous financial year. The growth of Gear business is linked to the prospects of Commercial vehicles, Tractors and other Auto products. After a major lull in demand for gears for 4 consecutive years, the gear industry is in the revival phase. The replacement market continues to be very competitive and highly price sensitive and volumes are driven by discounts and schemes. Both the truck and tractor segments grew in volumes but realisation dropped due to galloping steel prices which eroded margins. The demand was at higher level especially in second half of the financial year leading to 38% growth in sales. Your Company developed many new products to complement existing range of products for the replacement market and appointed new channel partners (distributors and stockists) to generate additional sales.

Exports witnessed a significant growth of 63% mainly on account of revival of exports to the US. We developed 85 new products to generate new business opportunities. Due to growth of CV segment domestic OEM sales experienced a windfall with sales growing by 45%.

The gear business achieved a turnover of Rs.82 crores as compared to Rs.59 crores in the immediately preceding financial year - a growth of 39%.

AUTO FINANCE OPERATIONS

661 Commercial vehicles and 113 tractors were financed during the year ended March 31, 2004. Overall portfolio quality continued to be good and delinquencies showed a downward trend. Encouraged by the overall performance of auto-financing operations, your company is in the process of stepping up retail financing activities during the current financial year.

MARKET AND FUTURE PROSPECTS

The Company will continue to improve its performance during the year under review through various initiatives undertaken for increasing market share and cost reduction in the areas of material cost, overheads, rationalisation of

manpower and control on working capital. Your Company has been offering products designed to meet the specific needs of different customer segments and this will continue to be a key to success in the market place. The new products offered by your Company have gained good acceptance in all the markets despite intense competition. Good acceptance of your Company's products in the overseas markets is also very heartening. Your Company is confident that with these initiatives it will further improve its performance in the current year.

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

Absorption and adaptation of technology has been a continuous process and foreign consultants namely RICARDO of UK, Valtra Inc. of Finland, VAN GARPEN of USA, Veeopro, Cranfield University of UK have been used, wherever needed, during the year. Consultancy from domestic institutions such as ARAI, Punjab Agricultural University, CIAE has also been quite fruitful in testing, certification and evaluation requirements for tractors and engines.

Highly productive and state-of-the-art technology CNC machines from Mazak - Japan have been commissioned for machining of critical engine components for commercial vehicles to ensure quality and reliability. Capacity in all the Commercial Vehicles assembly lines has been upgraded while ensuring productivity improvements by adopting appropriate scientific tools.

RESEARCH & DEVELOPMENT

The focus of Research and Development activity during the current year continued on development of new products and variants thereof, apart from improving the existing products and material cost optimisation.

Eicher Galaxy 30.25 (multi-axle 25 tonne HCV) was successfully tested and piloted during the year and would form a part of regular production during the current financial year. New variants of vehicles - 10.95 (9 tonne), 10.75 (7 tonne) and 10.59 (6 tonne) - in the LCV range were successfully piloted and cleared for regular production.

Design and development of Tipper 4X2, Tipper 6X4, 35 T GCW Tractor-Trailer and Euro -III engines were undertaken and piloting has been planned during this year in the field for customer usage feedback. These vehicles are expected to be introduced for regular production during the next two years.

R&D focus was also on upgrading tractor engines to meet emission norms of Trem-III, ensuring emission norms are met

for Gen sets and on achieving high level of fuel efficiency.

Another major project completed during the year was development of 50 HP water-cooled tractors with new hydraulic system. This has helped in completing the tractor portfolio. Apart from this, various product variants to take care of region specific needs such as Potato variant (35HP onwards), paddy special (35 & 42 HP), 30 HP for brick kilns, etc. have been introduced in the market.

To take care of the emerging US market, a 35 HP water-cooled tractor complying with US emission norms and with four wheel drive arrangement has also been developed. A new synchormesh gear box has been validated on the 50 HP tractor and will be piloted soon.

Focus also continued on non-agricultural applications and the 61 HP model tractor was upgraded with front-end loader and back hoe to suit "stone Crusher units". Similar variants are being developed for 42 HP and 50 HP models also.

A sum of Rs.32.80 crores was incurred on research and development activities during the year

CONSERVATION OF ENERGY

New initiatives taken to conserve energy are: -

- Promoting non-conventional and green energy by harvesting additional windmill power resulting in lower costs.
- Installation of new Natural draft cooling towers, Air booster for Coordinates Measuring Machine.
- Energy efficient motors and pumps for water supply in the plant
- High luminous low wattage lamps for boundary and plant lighting etc.
- Switch over of fuel of Thermo Pac from HSD to furnace oil.
- Soft starters installed on motors running under load.
- Usage of energy saving air blow guns and optimization of compressors.
- Cold washing of components and eliminating electrical heating.
- Variable frequency drives for pumps and blowers of chassis assembly and sheet metal paint shop line.
- Automatic switch off of Press motor during idle conditions.

- Rain water harvesting.
- Aquatherm heating system installed for heating process tanks in plating shop resulting in saving of 800 units of power per day.

PUBLIC DEPOSITS

As part of the approved Scheme of Arrangement, all the public deposits of Automobile Undertaking of Eicher Limited stand transferred to the Company. As at March 31, 2004, there were 655 deposits aggregating to Rs.4.42 crores.

During the year under review 260 deposits aggregating to Rs.1.85 crores matured. As of date, 252 deposits aggregating to Rs.1.78 crores have been repaid or renewed. The balance deposits remain unclaimed.

BOARD OF DIRECTORS

Mr S Sandilya and Mr M J Subbaiah - Directors, retire by rotation and, being eligible, offer themselves for reappointment.

A detailed resume of all the Directors is enclosed as part of the Corporate Governance Report.

FOREIGN EXCHANGE EARNINGS / EXPENDITURE

During the year direct exports of two wheelers and spares were Rs. 11.72 crores (FOB value) and vehicles and spare parts amounting to Rs.84.33 crores were exported through Eicher International Limited, a group company.

During the year, foreign exchange amounting to Rs 34.94 crores was used on account of import of components, spare parts, capital goods, technical assistance and business travel etc.

AUDITORS

M/s. A.F. Ferguson Associates, Chartered Accountants, have expressed their willingness to continue in office if re-appointed. A certificate has been obtained from them to the effect that the appointment, if made, will be in accordance with the limits specified in sub-section (1B) of section 224 of the Companies Act, 1956.

PARTICULARS OF EMPLOYEES

The statement of particulars of employees as per sub-section (2A) of section 217 of the Companies Act, 1956, read with Companies (Particular of Employees) Rules, 1975, for the year ended March 31, 2004 is annexed hereto and forms part of this report.